

GTE NORTH INCORPORATED
GTE SOUTH INCORPORATED

DIRECT TESTIMONY OF BRIAN W. MCCORMICK

ICC DOCKET NO. 00-_____

Q. Please state your name and business address.

A. My name is Brian W. McCormick. My business address is 600 Hidden Ridge,
Irving, Texas 75038.

Q. By whom are you employed and in what capacity?

A. I am employed by GTE Network Services as Regulatory Director-Property
Repositioning.

Q. Please summarize your educational background and experience in the
telecommunications industry.

A. In 1963, I completed studies in accounting at Powelson Institute in Syracuse,
New York. Throughout my years with Contel and GTE, I've attended numerous
management courses, which concentrated on advanced management
techniques and business case studies.

I began my professional career in 1963 when I joined the Public Accounting
firm of Peat, Marwick, Mitchell and Co. as a Staff Accountant. My duties were
general audit and tax return preparation. In 1965, I entered the
telecommunications industry when I accepted a position as General Accountant
for Chanango and Unadilla Telephone Company. As General Accountant, I was

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ILL. C. C. DOCKET NO. 00-0187

John P. Peterson Exhibit No. 1.00

Witness _____

Date 6-20-00 *CB*

1 responsible for maintaining the books of the corporation and the preparation of
2 financial statements.

3 In 1966, I entered the US Army where I served for two years. In 1968, upon
4 separation from the Army, I was employed by Contel Corporation, then
5 Continental Telephone Company, which had acquired Chenango and Unadilla
6 Telephone Company in early 1968. Between 1968 and 1991, while employed by
7 Contel, I held numerous positions including Senior Accountant, Tax Manager,
8 Revenue Requirements Manager, and Assistant Vice President-Regulatory. My
9 work experience throughout this twenty-three year period was concentrated in
10 the finance and regulatory disciplines. I supervised the accounting operations
11 for numerous telephone, cable television and radio companies. For ten years, I
12 managed Contel's Eastern Region Tax Department with responsibility for all tax
13 compliance and tax accounting for Contel's thirteen Eastern Region subsidiaries.
14 For six years, I managed rate case filings and other regulatory matters on behalf
15 of Contel's subsidiaries throughout the Eastern Region. From 1986 to 1991 as
16 Assistant Vice President-Regulatory, I was responsible for all rate case, tariff,
17 pricing, cost of service, settlements and carrier access billing matters for Contel's
18 northeast states, which included telephone companies in Maine, Vermont, New
19 Hampshire, New York, Pennsylvania, and West Virginia.

20 In 1991, with the merger of Contel and GTE, I became the Director-External
21 Affairs for GTE's Northeast Region, headquartered in New York State. GTE's
22 Northeast Region consisted of its merged Contel telephone properties located in

1 the states of New York, Maine, Vermont, and New Hampshire. During 1993 and
2 1994, I served on the Board of Directors of the New York State Telephone
3 Association.

4 In September 1994, I assumed the position of Director-Regulatory Accounting
5 and Compliance for GTE Service Corporation. I was also Assistant Controller for
6 the GTE Telephone Operating Companies. My principal duties included the
7 direction and supervision of the preparation of all accounting information in
8 support of tariff and rate filings for GTE's telephone operating companies. I was
9 responsible for all regulatory reporting and compliance as required by the
10 regulatory agencies. In June 1998, I assumed my current position as Regulatory
11 Director-Property Repositioning.

12 **Q. Have you previously testified before regulatory commissions?**

13 **A.** Yes, I have testified before regulatory commissions in Maine, Vermont, New
14 Hampshire, New York, Pennsylvania, Virginia, West Virginia, North Carolina,
15 South Carolina, and Washington on various issues including results of
16 operations, capital structure, extended area service, affiliated interests, rate
17 design, product-specific cost of service, and property repositioning. I have also
18 submitted testimony in rate proceedings before the California Public Utilities
19 Commission, the Florida Public Service Commission, the Oklahoma Corporation
20 Commission, the Hawaii Public Utilities Commission, and the Oregon Public
21 Utility Commission.

PURPOSE

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this proceeding is three-fold. I will briefly describe GTE's repositioning initiative and selection of property to be repositioned. I will also explain how buyers have been selected, criteria, etc. and I will identify the Illinois buyer and describe the transaction. Finally, I will discuss why the proposed sale is in the public interest.

GTE'S REPOSITIONING INITIATIVE

Q. Please Explain GTE's repositioning initiative.

A. On November 5, 1998, GTE announced its plan to sell or trade about 1.6 million switched access lines, approximately 8% of its domestic total.

The properties offered included all GTE wireline exchanges in the states of Alaska, Arkansas, Arizona, Iowa, Minnesota, Nebraska, New Mexico, and Oklahoma, and some of the GTE exchanges in California, Illinois, Missouri, Texas, and Wisconsin.

This repositioning is intended to position GTE in markets that offer greater efficiencies in operations and higher growth opportunities. Repositioning of some of GTE's properties is part of an overall corporate plan previously announced in April 1998 to generate after-tax proceeds of \$2 to \$3 billion to be used to pursue other strategic opportunities. Furthermore, repositioning will allow the company to better defend and grow the strategic markets it currently serves. The remaining rural territories, 25 % of GTE Network Services, will be

1 well concentrated, putting GTE in a better position to fund capital requirements
2 for those properties.

3 **Q. How did GTE identify the properties to be sold?**

4 **A.** GTE formed a Network Services Property Repositioning Team to gather,
5 analyze, and evaluate information for packaging an overall marketing plan, which
6 was presented to GTE's Board of Directors in September 1998. In evaluating
7 and determining the wireline properties to be sold, the Network Services team
8 considered a number of factors:

- 9 • financial and operational characteristics of the exchanges
- 10 • potential growth opportunities in those markets
- 11 • quality of GTE's combined wireline/wireless footprint
- 12 • proximity to the top 50 markets in the U.S.
- 13 • regulatory environment and approval processes
- 14 • the ability to create geographic clusters of properties to attract buyers
- 15 • potential for improved operational efficiency.

16 GTE markets were ranked based upon the first two criteria above, market
17 conditions and financial characteristics. The remaining factors above were then
18 considered to identify the final package of properties.

19 **BUYER SELECTION / ILLINOIS TRANSACTION**

20 **Q. Generally, how were buyers selected for the sale of property?**

21 **A.** In November 1998, GTE sent out pre-qualification letters to over 200
22 interested buyers. These letters requested information necessary for GTE to

1 invite the best-qualified companies to receive further information on the
2 properties being offered and participate in the due diligence process.

3 Companies submitting information were requested to commit to employing all
4 employees directly supporting the purchased exchanges at the same or
5 comparable positions and at reasonably comparable salary and benefits
6 packages. The companies also had to be willing to assume the terms and
7 conditions of any bargaining unit agreement in effect for the sold properties.
8 Buyers were also required to provide evidence of financial viability. Finally,
9 buyers were required to provide information relating to their ability to successfully
10 operate the property and to obtain necessary regulatory approvals.

11 From the buyer's submissions, GTE selected the best-qualified applicants to
12 receive more detailed state-specific offering documents and to participate in a
13 paper due diligence process. This process was spread over several months,
14 with regional clusters of property offered at regular intervals.

15 Upon completion of paper due diligence, buyers were given a specific date
16 upon which bids and contract terms were to be submitted to GTE. GTE
17 carefully evaluated the bids and contract terms and further refined the list of
18 buyers to a small group, which was selected for the final negotiations and
19 physical due diligence process.

20 **Q. Who is the buyer for GTE's selected Illinois properties?**

21 **A.** Citizens Utilities Company ("Citizens") is the buyer of the Illinois exchanges
22 selected for repositioning. Citizens provides local exchange service to about a

1 million customer access lines in thirteen states across the country. Citizens also
2 owns 82 percent of Electric Lightwave, Inc., a leading full-service, facilities-based
3 integrated communications services provider of enhanced data service, frame
4 relay, ATM, and Internet access solutions to bandwidth-intensive businesses and
5 the e-commerce market.

6 In May 1999, GTE agreed to sell more than 186,000 access lines in
7 Minnesota, Arizona, and California to Citizens. This transaction represented all
8 of GTE's operations in Minnesota and Arizona, and a fraction of GTE's
9 operations in California.

10 In September 1999, GTE agreed to sell all of its 60,000 Nebraska access
11 lines to Citizens.

12 **Q. Please describe the proposed transaction.**

13 **A.** On December 16, 1999, GTE entered into a definitive agreement (the "Asset
14 Purchase Agreement") with Citizens, whereby GTE agreed to sell 106,850
15 customer access lines in selected exchanges in Illinois to Citizens.

16 Under the terms of the Asset Purchase Agreement, GTE employees serving
17 the sold Illinois exchanges who are actively employed on the closing date will
18 become the employees of Citizens Illinois at the same or comparable total base
19 compensation they are receiving at that time. As announced, the GTE
20 employees include hourly and salaried employees.

21 **Q. Please identify the individual exchanges in Illinois receiving service from**
22 **the assets that GTE is selling.**

1 A. The proposed sale includes 110 Illinois exchanges. The exchanges are listed
2 in the attached Exhibit 23. As listed in Exhibit 1.01, as of December 31, 1999,
3 these exchanges had 87,618 residential lines and 22,934 business lines for a
4 total of 110,552 access lines.

5 Q. How will GTE account for this transaction?

6 A. GTE will utilize Part 32 Accounting and record this transaction in accordance
7 with Generally Accepted Accounting Procedures.

8 PUBLIC INTEREST

9 Q. Why is this sale to Citizens in the public interest?

10 A. Citizens is experienced in telecom operations and committed to building a
11 strong organization. Citizens specializes in serving rural exchanges and will
12 focus on the provision of excellent telephone service in Illinois.

13 The sale by GTE and the purchase by Citizens are a winning scenario for
14 GTE, Citizens, and all stockholders. The communities win because Citizens will
15 provide a concentrated focus on the areas associated with the acquired
16 properties.

17 The customers transferring to Citizens win because Citizens is primarily a
18 rural service company and its renewed focus on the areas associated with the
19 acquired properties should result in excellent customer service and attention.
20 GTE Shareholders win because the value of its' retained investments should
21 increase with GTE's improved ability to capitalize on marketplace opportunities.
22 The employees win because GTE is able to sharpen its focus on competing in

1 targeted markets and on growing the company; and those going to Citizens will
2 become part of company committed to serving the smaller, more rural
3 marketplace.

4 As GTE has made a strategic decision to redefine its telecommunications
5 markets, Citizens is dedicated to rural telecommunications service and the
6 Illinois customers will receive the benefit of this emphasis.

7 **Q. Will the customers of GTE be detrimentally affected by the sale?**

8 A. No, I understand that Citizens intends to take the facilities and customers in
9 place at current rates. The transaction should result in no immediate change for
10 the customers except for who the provider is, what the bill looks like and changes
11 in numbers to call for customer service.

12 **Q. How will GTE coordinate with the buyers in the ownership changeover to
13 make certain that there are no disruptions of service to existing
14 customers?**

15 A. GTE clearly recognizes the importance of ensuring a smooth transition in
16 ownership of the facilities and transfer of our customers to the buyers. We have
17 experienced network managers to manage and coordinate the tasks and
18 activities that need to be performed to ensure a smooth transition.

19 The repositioning team has designed a transition process that reflects our
20 experience with other states' transitions. Subsequent to the sale, a team
21 representing all the impacted functional areas in GTE has been established to
22 implement the transition process for the Illinois sale exchanges.

1 Q. Will this sale disrupt or change existing network interconnection to the
2 public switched network by resellers, cellular providers, and independent
3 telephone companies?

4 A. No, the purchasers of the GTE exchanges will own the interoffice facilities
5 within the exchanges that they are purchasing. Like GTE and other independent
6 companies, the purchasers will be joint providers of the public switched network.
7 It is my understanding that Citizens Illinois will negotiate interconnection
8 agreements with all telecommunications service providers that currently have
9 interconnection agreements with GTE North and GTE South. If such
10 agreements cannot be negotiated prior to closing, Citizens Illinois will provide
11 interconnection services according to the terms of GTE's approved
12 interconnection agreements, to the extent possible.

13 Q. Are there any effects on public safety services such as 911 or E-911?

14 A. No. Currently, 911 services are available in all of the exchanges being sold.
15 GTE required all potential purchasers to indicate their willingness to continue to
16 provide 911 and E-911 services in the purchased exchanges and to honor GTE's
17 existing contractual agreements for these services. Because the buyers have
18 agreed to provide 911 and E-911 services, there will be no disruption or change
19 in the provision of emergency services as a result of these sales.

20 Q. What effect will the sale of these exchanges have on existing Extended
21 Area Service (EAS) routes?

22 A. The sale of these exchanges will have no effect on existing EAS routes. The

1 buyers have indicated they will continue to provide the EAS routes that are
2 currently in place.

3 **SUMMARY**

4 **Q. Please summarize your testimony.**

5 A. I have described GTE's repositioning initiative and how the properties were
6 selected for sale. I have discussed how GTE was careful in selecting buyers for
7 the property by requiring that the parties demonstrate their capabilities and make
8 significant commitments to the employees in Illinois. I have identified Citizens as
9 the buyer and described the transaction. Finally, I have discussed why the
10 transaction is in the public interest.

11 **Q. Does this conclude your direct testimony?**

12 A. Yes it does.

SWITCHED ACCESS LINE SUMMARY REPORT DECEMBER - ILLINOIS

OFFICE	1999 MONTHLY RESIDENTIAL LINES	1999 MONTHLY BUSINESS LINES	1999 MONTHLY TOTAL LINES
ABINGDON	1,909	386	2,295
ADDIEVILLE	232	27	259
ALBANY	886	163	1,049
ALEDO	2,085	788	2,873
ALEXIS	653	138	791
ALPHA	475	114	589
ALTAMONT	1,667	486	2,153
ANDOVER	327	49	376
ASHLEY	664	90	754
BARTELSON	408	56	464
BASCO	406	37	443
BATCHTOWN	271	25	296
BATH	361	32	393
BEECHER CITY	552	80	632
BENLD	1,231	154	1,385
BIGGSVILLE	611	123	734
BOWEN	273	60	333
BROWNSTOWN	515	93	608
BRUSSELS	478	84	562
BUNKER HILL	1,173	282	1,455
CARLINVILLE	3,382	1,759	5,141
CARTHAGE	1,444	894	2,338
CHADWICK	470	90	560
CHESTERFIELD	367	43	410
COFFEEN	527	70	597
COLETA	295	25	320
CORDOVA	457	332	789
DALLAS CITY	579	114	693
DONNELSON	504	48	552
DOW	735	101	836
DUBOIS	299	35	334
EAST DUBUQUE	1,892	535	2,427
EDGEWOOD	650	59	709
ELIZA	451	52	503
ELVASTON	144	17	161
ERIE	1,063	261	1,324
FAIRPLAY	563	122	685
FARINA	658	143	801
FERRIS	258	50	308
FIELDON	421	40	461
FILLMORE	396	47	443
FULTON	1,897	535	2,432
GILLESPIE	1,826	523	2,349
GREENVIEW	573	126	699
GULFPORT	332	51	383
HAMBURG	247	21	268
HAMILTON	1,539	408	1,947
HAMPTON	1,416	506	1,922
HARDIN	677	300	977
HETTICK	159	21	180
HILLSDALE	494	144	638
HOFFMAN	322	82	404

Page 1 of 3

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ILL. C. C. DOCKET NO. 000187*Joint Petition* Exhibit No. 1.01

Witness _____

Date 6-20-00 Reporter CB

SWITCHED ACCESS LINE SUMMARY REPORT DECEMBER - ILLINOIS

OFFICE	1999 MONTHLY RESIDENTIAL LINES	1999 MONTHLY BUSINESS LINES	1999 MONTHLY TOTAL LINES
HOOPPOLE	160	26	186
HOYLETON	471	124	595
INA	290	137	427
IRVINGTON	769	171	940
JERSEYVILLE	4,340	1,790	6,130
JOY	341	78	419
KAMPSVILLE	292	57	349
KEITHSBURG	412	69	481
KEYESPORT	512	75	587
KILBOURNE	243	31	274
KIRKWOOD	461	60	521
LANARK	1,610	404	2,014
LITTLE YORK	327	23	350
LONDON MILLS	309	28	337
LYNDON	531	87	618
MASON CITY	1,319	309	1,628
MATHERVILLE	453	28	481
MEDORA	671	113	784
MILLEDGEVILLE	809	194	1,003
MONMOUTH	4,346	1,871	6,217
MORRISON	3,107	1,163	4,270
MOUNT OLIVE	1,446	273	1,719
MULBERRY	754	110	864
NAUVOO	741	254	995
NEW BOSTON	464	58	522
NEW DOUGLAS	310	36	346
NEW MINDEN	201	151	352
OTA	164	36	200
ORTH	165	14	179
OQUAWKA	913	193	1,106
PATOKA	791	181	972
PITTSBURG	261	15	276
POLO	1,595	446	2,041
PORT BYRON	1,459	244	1,703
PREEMPTION	236	20	256
PROPHETSTOWN	1,235	370	1,605
RAMSEY	1,013	135	1,148
RIO	176	28	204
ROSEVILLE	634	165	799
SANDOVAL	694	173	867
SEATON	221	26	247
SHANNON	607	174	781
SHATTUC	356	35	391
SHERRARD	808	99	907
SHUMWAY	1,432	159	1,591
SORENTO	429	35	464
ST. ELMO	824	236	1,060
ST. PETER	487	97	584
STRONGHURST	665	173	838
SUTTER	143	8	151
TAMAROA	659	53	712
TAMPICO	799	144	943

**SWITCHED ACCESS LINE SUMMARY REPORT
DECEMBER - ILLINOIS**

OFFICE	1999 MONTHLY RESIDENTIAL LINES	1999 MONTHLY BUSINESS LINES	1999 MONTHLY TOTAL LINES
TEUTOPOLIS	1,147	470	1,617
THOMAS	124	6	130
WALTONVILLE	571	60	631
WARSAW	801	168	969
WATSON	1,431	225	1,656
WOODLAWN	875	205	1,080
TOTAL	87,618	22,934	110,552

**STATE OF ILLINOIS
BEFORE THE ILLINOIS COMMERCE COMMISSION**

GTE NORTH INCORPORATED
GTE SOUTH INCORPORATED
CITIZENS TELECOMMUNICATIONS COMPANY OF ILLINOIS

Joint Petition for the Approval of Purchase and
Sale of Assets, and Related Agreements
Pursuant to §7-102 of the Public Utilities Act;
the Issuance of Certificates of Interexchange
Service, Service, and Exchange Service
Authority Pursuant to §§13-403, 13-404,
and 13-405 to Citizens Telecommunications
Company of Illinois; the Discontinuance
by GTE North Incorporated and
GTE South Incorporated of Service
Pursuant to §13-406 of the
Public Utilities Act; the Issuance of an
Order Approving Designation of
Citizens Telecommunications Company of
Illinois as an Eligible Telecommunications
Carrier Covering the Service Area
Consisting of the Exchanges to be Acquired
from GTE North Incorporated and GTE
South Incorporated Upon the Closing of this
Purchase and Sale of Assets; the Issuance
Of a Letter of Non-Opposition to Waiver of
Study Areas; the Authorization of Citizens
Telecommunications Company of Illinois to
Maintain its Books and Records Outside of
the State of Illinois; and the Granting of All
Other Necessary and Appropriate Relief.

Docket No. 00-0187

AFFIDAVIT OF BRIAN W. MCCORMICK

STATE OF Texas)
) SS.
COUNTY OF Dallas)

BRIAN W. MCCORMICK, first being duly sworn on oath states as follows:

1. I am employed by GTE Network Services as Regulatory Director-Property Repositioning.
2. My business address is Hidden Ridge, Irving, Texas, 75038.
3. On February 25, 2000, I submitted prefiled direct testimony on behalf of Joint Petitioners GTE North Incorporated and GTE South Incorporated in the above-caption docket.
4. My direct testimony in this proceeding is marked for identification as "Exhibit 1.00".
5. Exhibit 1.00 consists of eleven pages.
6. The attachment to my direct testimony in this proceeding is marked as Exhibit 1.01.
7. Exhibit 1.01 consists of three pages.
8. I have no corrections, additions or deletions to Exhibits 1.00 or 1.01.
9. I certify that the answers and information set forth in Exhibits 1.00 and 1.01 are true and correct to the best of my belief and knowledge.
10. If asked the same questions today as those set forth in Exhibit 1.00, my answers would be the same as those set forth in Exhibit 1.00.

FURTHER AFFIANT SAYETH NOT.



Brian W. McCormick

SUBSCRIBED and SWORN to before me a Notary Public, this 15 day of

June, 2000.

Arija Henry
Notary Public